E-COMMERCE AT YUNNAN LUCKY AIR

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Abstract

A cost-centered business strategy can be a key tactic for Yunnan Lucky Air to move forward as a profitable firm, and differentiate them amongst their competitors. Yunnan can use these tactics to differentiate themselves and support a cost-focused strategy developed in this paper. These tactics will be implemented within the scope of ecommerce as part of Yunnan's overall strategy, and integrate with their marketing and operations plans. Definitions and supporting research will be included, including solutions and strategies for implementation. Yunnan has a unique situation it It's heavily regulated competitive landscape in China, but opportunities are available, in being th low cost leader in a growing, technologically emerging nation.

Cost-focused strategy at Yunnan Lucky Air

Lucky Air had grown into a US$104.3 million (RMB720 million) low-cost airline in only four years, serving domestic routes from its hub in Kunming, the capital of southwestern China's Yunnan province (Berenguer 2008), later expanding to over 14 international routes (Kon 2017).

The Chinese airline industry is heavily regulated, limiting flexibility for new airlines. Nonetheless, new low-cost competitors have been blossoming, and Lucky Air has been searching for additional competitive advantages. One option was to focus on e-commerce, a growing market in Chinese communities (Berenguer 2008).

Lucky Air's IT operation was backed by Hainan Airlines, which had one of the most advanced web portals in the Chinese airline industry. True, airline e-commerce was still at an early stage in China, but Lucky Air was eager to position itself at the cutting edge of technology and reap the same rewards as Southwest Airlines and similar U.S. competitors (Berenguer 2008).

Key Issues for Yunnan Lucky Air

China's airline industry had benefited from the country's rapid economic growth in the previous decades and the significant increase in Chinese people's disposable income, continuing to increase in the following decades (Berenguer 2008, Kon 2017). There were 25 airlines operating in China by the end of 2007. The three biggest national airlines – Air China, China Eastern Airlines, and China Southern Airlines – dominated domestic air travel, accounting for a combined 83.7% market share (Berenguer 2008).

The airline industry was heavily regulated, but recent years had seen some relaxation of government regulations and the founding of a number of new airlines, making domestic travel more affordable for everyone. The growth potential attracted many new entrants and intensified competition. Government regulations restricted airlines' ability to reduce ticket prices, yet the sheer abundance of low-cost airlines pressured each to lower its ticket prices as much as possible (Berenguer 2008).

Cost-Centered Business Strategy

Lucky Air had positioned itself as a low-cost, high-efficiency airline and adopted most of the key components of the Southwest Airlines model:

1. By using a single type of aircraft, it reduced maintenance and operational complexity. It offered only one seat class – coach – and simple one-way pricing.
2. There were no seat assignments or in-flight entertainment. Most of its routes were short haul and point-to-point to increase on-time departure and arrival.
3. It operated mostly in secondary cities to avoid congestion and reduce landing costs.

However, unlike low-cost airlines in the United States and Europe that could achieve a roughly 30% cost advantage, Lucky Air's cost structure was only about 5% lower than the industry average, mostly due to government-imposed constraints (Berenguer 2008)..

Lucky Air's four largest cost components – fuel, landing fees, aircraft leasing, and taxes – comprised about 70% of its operating cost, yet these costs were heavily influenced by government regulations (Berenguer 2008). Despite this, Yunnan lately has been expanding into the inter-continental network is with recently-announced flights (in 2017) to Moscow, at the time primarily targeting South East Asia and destinations within five to eight hours of its bases (Charnock 2017).

In China a passenger could buy an airline ticket directly from an airline, an authorized agent, or an online distributor. Traditionally when passengers bought tickets directly from an airline, the transaction was handled by the airline's call center, ticket counter, or website. In this case, the airline had to pay a Global Distribution System (GDS) fee to government-owned TravelSky, the only GDS in China (Berenguer 2008).

Overall Internet penetration in China was 19.1%, compared to 69.7% in the United States, and varied dramatically among regions. At the end of 2007, China had 210 million Internet users, up 53.3% from the end of 2006, and its penetration rate was growing by 6.1 million per month. The figure was expected to top the U.S. Internet population by mid-2008 and reach 590 million by 2012 (Berenguer 2008).

This is a huge opportunity for Lucky Air to be a leader in many markets. Although China's technology infrastructure had improved rapidly in recent years, the e-commerce sector remained relatively unsophisticated. People have not transitioned to online purchases throughout China in a large scale. Transaction security was often poor and payment systems expensive or unavailable, so only 15.8% of Internet users were online buyers and only 25% used an online banking service (Berenguer 2008).

Solutions and Strategies

One of Lucky Air's strengths was its IT operations. It depended on its parent company, Hainan Airlines, for IT support and spent a mere 0.15% of its own net income on IT investment. They have a competitive advantage, being first mover. Its website, luckyair.net, was the first in the industry to enable online credit card verification and create an online community for its passengers. Lucky Air hoped to reach more customers directly via its website, and build more brand recognition and a loyal customer base (Berenguer 2008). Expanding upon this lead in e-commerce is important, and the first solution suggested for Lucky Air is to increase spending on e-commerce development.

Tying e-commerce with Customer Relationship Management (CRM) software, such as Salesforce, facilitates a two-way exchange between a company and its customers so that the company could better understand its customers' needs. Of course, Lucky Air cannot depend solely on a low-cost strategy as its competitive advantage. Not only was the bulk of its operating cost heavily constrained and regulated, but profits would be low and price-cutting competitors fierce.

Lucky Air could follow Spring Airlines' example and bundle itself in higher-margin tour packages (The average spending of Chinese tourists per package is approximately $1,100, in a five-star hotel accommodation (Kon 2017)), but that would mean depending on a network of partnerships and setting itself up as a full-service travel website (Berenguer 2008).

If airline e-commerce was really taking off in China, then Lucky Air could seize the advantage by establishing itself as the online travel leader. E-commerce spending would support this. Low Internet penetration and inadequate online payment methods had seriously hindered the development of the online travel business, yet the situation could change dramatically as China's usage changes (Berenguer 2008). Also, tourism itself is a growing market in China, tourism revenue generated by the China market in 2016 was estimated at $6,451,178.86, with an average stay of 2.8 days (Kon 2017).

The examples of Southwest Airlines and other low-cost airlines abroad suggested that e-commerce could build loyalty, increase conversion, and reduce cost – provided that an airline was willing to invest significantly in technology and staff (Berenguer 2008). Working on alliances such as the U-FLY Alliance formed in January 2016 between founding members HK Express, Lucky Air, Urumqi Air, West Air and Easter Jet (Charnock 2017) is another way to keep costs down and continue to differentiate.

Yunnan has a unique situation. It's in a heavily regulated competitive landscape in China, but opportunities are available, in being the low-cost leader in a growing, technologically emerging nation. In a 2017 interview, Yunnan's President Byron Ding bills them as a "mixed low-cost carrier really, that means we're not just focused on the traditional LCC model per se", and their "widebody aircraft plan is according to a low-cost strategy" (Jaeger 2017).

Byron talks about the 3 main strengths that Lucky Air will have, which can be supported by a robust ecommerce strategy. Because Lucky Air is operating in a low-cost system (Berenguer 2008), their cost and fare structure is different, providing travelers with a much better intercontinental flight experience (Jaeger 2017).

At the same time, competitors operate mainly through their hubs, strategically located hubs. For instance, China Eastern Airlines will use Shanghai as their key hub to operate intercontinental airline services. But low-cost airlines like Lucky Air can operate intercontinental routes from point to point. In this way, their ticket prices relative to the competition will be lower (Jaeger 2017). Again, these prices are a great differentiator when competing online.

In addition, China's departing travelling market keeps getting bigger, and compared to first tier cities there are enough travelers choosing to take intercontinental routes from third or fourth tier cities. Furthermore, Lucky Air will also provide products and services which are suitable for our customers, to get closer to their needs (Jaeger 2017). Following Byron's lead, then their ecommerce component could have bundled packages, and other features to try to capture as much of the online market as possible.

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